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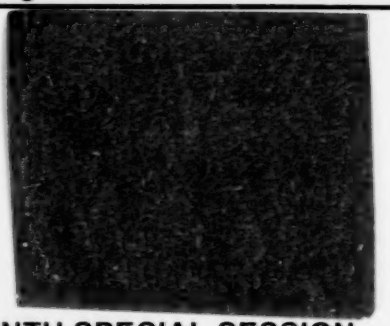

FOLLOW-UP TO THE SEVENTH SPECIAL SESSION

Financial situation of UNIDO

Report by the Director-General

Summary

Provides information on the status of the regular budget, separation indemnity reserve and operational budget.

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Introduction

1. Owing to the decision of the Board at its seventh special session to hold the thirteenth session of the Programme and Budget Committee in September 1997 and the corresponding amendment of the provisional agenda for the seventeenth session of the Board (IDB/S.7/Dec.2), the provisional agenda for the seventeenth session contains neither an item on nor a reporting mandate for the financial situation of UNIDO. The present report is nevertheless submitted under item 6 of the provisional agenda to provide up-to-date information on this important issue and also in consideration of its relevance to the ongoing deliberations concerning the future role and functions of UNIDO.

2. The current financial situation under the regular budget is characterized by the irregular payment patterns of assessed contributions by Member States and a weak (limited available) cash position. In order to ensure that the Organization remains solvent, restrictions on expenditures and a consequent slowdown of budgetary implementation has been the norm throughout the 1996-1997 biennium. Additionally, in view of the continued uncertainty concerning the financial ceiling of the 1998-1999 budget, it would be prudent to make financial provisions to fund possible future staff separations. The financial situation under the operational budget has continued to improve owing to an increasing level of technical cooperation delivery and strict control over expenditures.

I. CURRENT SITUATION

A. Regular budget

3. Cash resources available to the Organization to fund its regular activities fell to a dangerously low level of $0.9 million at the end of 1996. Payment of some liabilities was deferred until late December due to the cash shortfall.

4. During the first four months of 1997, assessed contribution income remained at levels comparable to 1996. While the collection rate of assessed contributions reached 96.5 per cent at the end of 1996, the 1997 projection includes some payments which may not materialize due to changes in the payment patterns of some Member States. Although month-end cash balances during 1997 have been reasonably satisfactory, projections for the remainder of the year show that cash balances at the year-end will again be at unsatisfactorily low levels, and are not expected to cover outstanding unliquidated obligations or permit any replenishment of the Working Capital Fund.

5. The status of assessed contributions to the regular budget as of 31 May 1997 is shown in conference room paper IDB.17/CRP.5, annex I. As of that date, unpaid contributions for the period 1986 to 1996 amounted to $61,376,864 and AS 451,386,668 (equivalent to $37,304,697 at an exchange rate of US$ 1 = AS 12.10) for a total of $98,681,561. Unpaid contributions for the current year amounted to $4,998,230 and AS 472,835,220 (equivalent to $39,077,303) for a total equivalent of $44,075,533. Total outstanding contributions, therefore, amounted to $142,757,094.

6. As of 31 May 1997, the collection rate amounted to 54.1 per cent of the 1997 assessment, 46.7 per cent of which related to current year collections and 7.4 per cent to prior year collections. As of 31 May 1997, 37 Member States had made full payments of 1997 assessed contributions, as shown in table 1 below. In addition, 30 Member States had made payments of prior year assessments, which was comparable to that date in 1996.

Table 1
Payment of current year assessments
(As of 31 May 1997)

	1996	1997
Number of Member States	169	168
No payment	109	118
Partial payment	28	13
Full payment	32	37

7. The above information shows an improvement in the number of Member States making payments in 1997 compared to 1996. The information, however, emphasizes the problem of uncertainties with respect to payment patterns of Member States which in turn makes it difficult for the Secretariat to plan its cash flow. The problem is exacerbated by the depleted cash base.

8. Member States are therefore urged to meet their obligations without delay. In this regard, 68 Member States currently have had their voting rights suspended since contributions due from these Members are in excess of the amounts prescribed in Article 5.2 of the Constitution. At the same time last year, 59 Member States had lost their right to vote.

9. The status of advances to the Working Capital Fund is shown in document IDB.17/CRP.5, annex II. Unpaid advances as of 31 May 1997 amounted to $38,456. The Fund presently has no cash balance and it is not expected to be replenished to its level of $6,750,000 during 1997.

10. Annex III to document IDB.17/CRP.5 shows the general fund cash flow analysis for 1997 as of 31 May

1997. The cash flow analysis indicates a projected cash balance of $3.8 million by year end. This assumes relatively similar income patterns compared to 1996 and continued expenditure savings. Cash availability continues to be a crucial issue, taking into account continued uncertainties with respect to income, expenditure and potential budgetary reductions at year end.

B. Regular budget performance report - measures taken

11. Financial implementation performance for the period January 1996 to May 1997 was strongly influenced by the low levels of available cash and projections of cash income from the payment of assessed contributions.

12. The financial indicators for the regular budget and contingency plans are presented in figure 1 and table 2 below. A more detailed presentation of the financial implementation by major programme and major object of expenditure is shown in annex IV to document IDB.17/CRP.5.

13. The ability of the Secretariat to implement the programme and budget fully and in a planned and systematic manner is dependent on the availability of cash resources. As described in section A above, an adequate level of cash resources has not been available during the current biennium to implement the approved budget in full.

14. Therefore, it has proven necessary for management to take action to reduce cash outflows through cutbacks in expenditures. In implementing expenditure reduction measures, the emphasis has been on reducing administrative and support costs rather than costs in substantive programmes. Notwithstanding the serious financial situation, the appropriations approved for the Regular Programme of Technical Cooperation and the Industrial Development for Africa (IDDA) supplementary activities have been retained and full implementation of these activities is anticipated in the biennium.

15. Expenditure reductions have been largely achieved through:

(a) Restrictions of external recruitment to posts with specialized expertise in priority substantive programmes or essential managerial functions. This has led to an increasing vacancy rate in the regular budget. As at 31 May 1997, the vacancy rate for Professional-level posts was 11.2 per cent compared to the budgeted level of 7 per cent. The need to hold posts vacant for budgetary reasons has negatively impacted on the implementation of work programmes, particularly in the Divisions of Human Resource, Enterprise and Private Sector Development, and Industrial Sectors and Environment;

(b) Continued restrictions on the use of general temporary assistance and overtime;

Figure 1

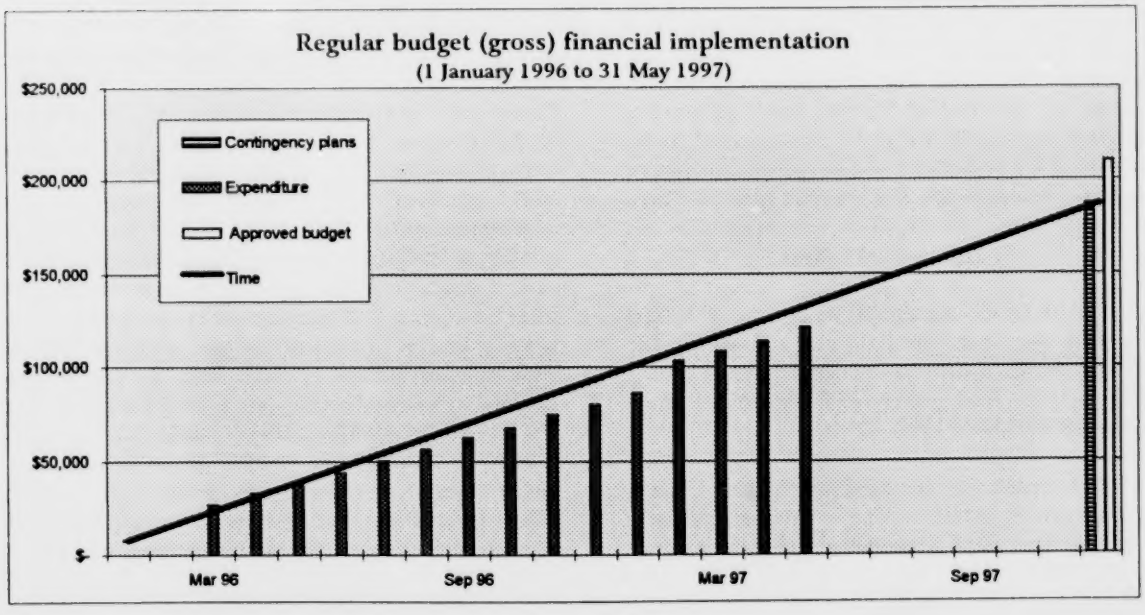

Table 2
Regular budget financial implementation
1 January 1996 to 31 May 1997
(In thousands of US$ at US$ 1 = AS 12.90)

	Approved budget	Contingency plans
Gross		
1996-1997	210,246.6	187,103.2
Expenditure to date	121,033.2	121,033.2
Unspent budget	89,213.4	66,070.0

(c) Savings achieved in travel costs through a reduction of standards of travel of staff and through maximizing the use of cheaper airfares;

(d) The postponement of maintenance work in the Vienna International Centre complex, cutbacks in expenditures for supplies and materials, and replacement of furniture and equipment;

(e) Restricted utilization of consultant services and meeting funds;

(f) Reduced utilization of conference services due to fewer and shorter meetings, and reduced documentation.

16. While the implementation of the above measures will partially offset the cash shortfalls, an underutilization of budgetary appropriations for 1996-1997 will be unavoidable. This means that due to the shortfall in cash resources, the directive of Member States in General Conference decision GC.6/Dec.11, calling for the implementation of the programme and budgets in accordance with the contingency plans will not have been fully met.

C. Operational budget

17. The financial situation of the operational budget has steadily improved during the past six months. The increasing technical cooperation delivery levels experienced during the final quarter of 1996 continued during the first five months of 1997.

18. Notwithstanding the improving delivery levels, a strict control of expenditures together with an increase in the value of the United States dollar against the Austrian schilling will ensure that expenditures will be held below 1996 levels. The surplus achieved for the year to date in 1997 has been used to strengthen the reserves. No new resource allocations will be authorized until the operating reserve has been restored to the level of $4.3 million as approved by the Board in decision IDB.14/Dec.12.

19. The operational budget status report showing actual and projected income, implementation for 1997, together with the estimated reserve balances at year-end, is summarized in table 3.

D. Separation indemnity reserve

20. The separation indemnity reserve was established in December 1995 at a level of $17 million for the purpose of funding and accounting for the costs of the staff reduction exercise. The utilization of the reserve and the unspent balances as at 31 May 1997 are shown in table 4 below.

21. Pending a decision by the policy-making organs on the financial ceiling of the regular budget for 1998-1999, some forward planning may be judicious in anticipation of possible budgetary reductions below the level of zero real growth, particularly in the light of announced changes in membership. In the absence of any clear indication of the level of possible budget reductions, and as a first step, the Secretariat would propose the restoration of the separation indemnity reserve to its original level of $17 million. The reserve would provide the financial authority for the possible separation of staff in a timely and systematic manner in accordance with the staff regulations.

22. The Secretariat intends to present a proposal on the restoration of the separation indemnity reserve to the thirteenth session of the Programme and Budget Committee. The proposal will suggest modalities for the funding (budgetary) and financing (cash) of a restoration of the reserve. As a first step in the planning for possible staff reductions, consideration could be given to approving unutilized balances from prior bienniums to provide the budgetary authority. However, at present, no cash is available in respect of these prior bienniums' balances. Options will therefore need to be developed on possible sources of the required cash resources. Unless cash balances become available from the payment of outstanding assessed contributions, particularly from the United States of America, other options including supplementary assessments on Member States or voluntary advances by Member States may be unavoidable. Such advances would be repaid upon receipt of cash in respect of unutilized balances from prior bienniums.

Table 3
Operational budget status report, 1997
(In thousands of US dollars)

Opening balance of reserve - 1 January 1997			3,374.9
Income			
Actual - January to May 1997	5,980.6		
Projected - June to Dec. 1997	6,070.9		
		12,051.4	
Expenditure			
Actual - January to May 1997	5,740.1		
Projected - June to Dec. 1997			
		11,999.1	
Estimated surplus/(deficit)			52.4
Estimated closing balance of reserve - 31 December 1997			3,427.3

Table 4
Separation indemnity reserve
(In thousands of US dollars)

Approved level of the reserve		
(a) Obligation against 1994-1995 budget appropriation		7,453.3
(b) Unutilized balances of appropriation for 1992-1993		9,546.7
		17,000.0
Utilization (at 31 May 1997)		
(a) Termination costs:		
Disbursements	(13,685.3)	
Obligations	(716.2)	
		(14,401.5)
(b) 1994-1995 obligations not utilized [a]		(567.7)
Balance of the reserve at 31 May 1997		2,030.8

[a] Included in the budgetary surplus for 1994-1995.

II. ACTION REQUIRED OF THE BOARD

23. The Board may wish to consider the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the Director-General on the financial situation of UNIDO (IDB.17/24) containing information concerning the status of assessed contribution advances to the Working Capital Fund, cash flow estimates, regular budget performance, operational budget status and the separation indemnity reserve;

"(b) Urges those Member States that have not yet paid their assessed contributions for the bienniums 1986-1995 to 1996-1997 to do so without delay;

"(c) Appeals to the Government of the United States of America to pay immediately its legal obligations to the Organization of $61.3 million.